

American Gas Association
American Hotel and Lodging
Association
American Public Power
Association
American Resort Development
Association
American Society of
Association Executives
America's Community Bankers
Associated General Contractors
of America
Association of American
Railroads
The Bond Market Association
BOMA International
CCIM Institute
Chemical Producers and
Distributors Association
Commercial Mortgage
Securities Association
The Financial Services
Roundtable
Hilton Hotels Corporation
Host Marriott
Institute of Real Estate
Management
International Council of
Shopping Centers
Marriott International
Mortgage Bankers Association
of America
National Apartment
Association
National Association of Home
Builders
National Association of
Industrial and Office Properties
National Association of
Manufacturers
National Association of
REALTORS®
National Association of Real
Estate Investment Trusts
National Association of
Waterfront Employers
National Association of
Wholesaler-Distributors
National Council of Chain
Restaurants
National Football League
National Multi Housing
Council
National Petrochemical &
Refiners Association
National Retail Federation
Pension Real Estate Association
Real Estate Board of New York
The Real Estate Roundtable
Society of American Florists
Union Pacific Corporation
U.S. Chamber of Commerce
Westfield

CIAT **COALITION TO INSURE AGAINST TERRORISM**

STATEMENT BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE ON HOW MUCH ARE AMERICANS AT RISK UNTIL CONGRESS PASSES TERRORISM INSURANCE PROTECTION?

February 27, 2002

Madam Chairwoman and Ranking Member Gutierrez, we commend you for the much-needed attention that you, Chairman Oxley and Ranking Member LaFalce are bringing to this important issue by conducting this hearing. It is clear that Committee and Subcommittee Members recognize the importance of this issue and its impact on the U.S. economy. We thank you for your leadership in addressing insurance-related problems by passing H.R. 3210, and we also want to acknowledge efforts by the White House to remedy the terrorism insurance crisis.

The Coalition to Insure Against Terrorism represents a wide range of businesses and organizations that are concerned about the increasing exposure they face because of the absence of affordable and comprehensible terrorism insurance. The Coalition believes that this gap in coverage threatens economic progress and will lead to more jobs lost if the Congress does not remedy this problem.

More than ever, Americans are looking to our leaders to help secure our way of life. That is why the efforts of President Bush and Congress to strengthen our



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homeland security are so important. Yet all over America, a growing list of public and private companies and places are uninsured against terrorism. Ports, airports, buildings, businesses, tunnels, bridges, power plants, transmission lines, gas pipelines, sporting events, wholesale distributor facilities, and entertainment venues all are at risk.

At a time when President Bush, Attorney General Ashcroft, and CIA Director Tenet and others continue to warn America about possible — and even likely — attacks on places ranging from private facilities to famous landmarks, it is imperative that Congress act soon. Without the protection of terrorism insurance, a growing number of workers, businesses, facilities, and infrastructure are left uncovered against a potentially catastrophic loss. Although we remain vigilant against the next terrorist attack, the lack of terrorism insurance is an increasing threat to our economic security, and to our homeland security, as well.

Excerpts from the General Accounting Office report substantiate that the problem is growing worse by the day, resulting in more of the nation left uninsured or underinsured for the next terror attack. American businesses could face severe economic dislocation in the coming months if the Federal government does not immediately address insurance-related issues tied to terrorism. Absent adequate insurance, business models do not function well and many lenders will not lend. The impact will ripple through the economy to employees, vendors, suppliers, contractors and investors such as pension funds. New investment and economic growth will suffer, delaying the economic recovery and even threatening our economic security. Every business decision delayed or cancelled because of this lack of insurance means jobs lost or not created — construction jobs, building and trade jobs and others. Every sector of the economy will be affected, as the breadth of our membership demonstrates.

Without terrorism insurance coverage, businesses are forced to self-insure. This means committing and putting at risk capital that could otherwise be used for investment and job creation. Furthermore, financing for new construction and capital investment in many of our buildings, plants, ports and factories will dry up since lenders are no more willing to bear the risk of terrorism than are the insurance companies.

To continue to operate in the normal course of business, our members need to be insured for risks that have traditionally been insurable, including damage associated with terrorism. The insurance industry now is not providing terrorism coverage under general property and casualty policies (including crucial business interruption), and businesses can only obtain limited, deficient and possibly defective in coverage the current marketplace, and that at only exorbitant pricing. Those policies that are available don't even cover bioterrorism, a threat that Members of Congress are all too familiar with.

The unsettling reality is that since September 11th, we are experiencing an insurance market failure. Insurance companies will not sufficiently insure against the risk of terrorism — despite the demand for coverage. The magnitude of this failure is building as more and more insurance policies come up for renewal leaving an ever-increasing number of businesses unprotected from terrorist related losses. Unless the federal government intervenes, this could create havoc in the economy, threaten its recovery and pose a very real threat to our homeland security.

Given this insurance market failure, the Federal government appropriately can, and should, play a role in ensuring that policyholders can obtain coverage against any terrorist attack, including

bio-terrorism. Individuals and companies should not bear the full brunt of the risk when the terrorists' real target is both the United States government and our society as a whole.

As you know, there is ample precedent for the Federal government filling the insurance or reinsurance gap: (1) crime and riot insurance programs were created for urban business owners following the social unrest of the late 1960s and early 1970s; (2) flood and crop failures are insured under Federally sponsored programs; (3) standby war risk coverage already exists for certain aviation and maritime operations (including a post-September 11 expansion of the aviation war risk program to cover terrorism); and (4) during World War II, the Government authorized a program, administered by private insurers, which insured property against "enemy attack." The last is a particularly good example of a short-term government program that restored business and consumer confidence during a wartime emergency but which closed down when normal conditions were restored.

The effects of lost insurance coverage on policyholders represented by our coalition are potentially severe. As one example, building owners and operators will be fully exposed to liability and property damage losses from terrorist attacks and will be powerless to do anything about it. Furthermore, without government action, our industries face the prospect of being held in default of loan covenants agreed to at the time financing was secured. Since operating a business without adequate insurance in many cases is not feasible, some businesses will confront the possibility of ceasing or limiting operations until insurance once again becomes available. Put simply, without Federal action the ability to finance, buy or sell many businesses across the nation is at risk.

In the face of continuing threats of terrorist attacks and mounting evidence of economic disruption, Congress must act soon. Without a federally-backed initiative, terror insurance is becoming an increasingly necessary and expensive product in very short supply. We urge Congress to make sure that Americans have access to affordable, comprehensive terrorism insurance. It is a crucial step to prevent further homeland in-security. And it is absolutely necessary to retain our great nation's strength and confidence. The Coalition also believes it is important to include in any terrorism insurance legislation Congresses passes reasonable limits on the liability of non-terrorists for damages caused by a certified act of terrorism, treating all businesses equally.

If you would like to discuss this important issue in greater detail, please contact Marty DePoy at the National Association of Real Estate Investment Trusts at (202) 739-9411, Kimberly Pinter at the National Association of Manufacturers at (202) 637-3071, or Joe Rubin at the U.S. Chamber of Commerce at (202) 463-5354.